

REGIONAL DEVELOPMENT AGENCY

MANAGEMENT STATEMENT

and

FINANCIAL MEMORANDUM

[name of the Agency]

October 2005

This document replaces the RDA Management Statement issued in 2003 and the Consolidated Financial Memorandum 2004

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1. INTRODUCTION, PURPOSES AND ACTIVITIES OF THE AGENCY

Statutory Authority And Purposes Of Regional Development Agencies

- 1.1 Eight Regional Development Agencies (RDAs) for England (outside London)¹ have been established under the Regional Development Agencies Act 1998 ("the Act"). Each Agency has the same five purposes as set out in Section 4 of the Act:
- to further the economic development and the regeneration of its area;
 - to promote business efficiency, investment and competitiveness in its area;
 - to promote employment in its area;
 - to enhance the development and application of skills relevant to employment in its area, and
 - to contribute to the achievement of sustainable development in the United Kingdom where it is relevant to its area to do so.
- 1.2 The Agency's purposes apply as much in relation to the rural parts as well as to its non-rural parts of its area.
- 1.3 Furthermore, the Agency shall formulate and keep under review a regional strategy (Section 7 of the Act), and undertake any function delegated to it by the Secretary of State (Section 6 of the Act).
- 1.4 The Agency is a body corporate with a constitution and purposes laid down in the Act. It is free to pursue its statutory purposes within the framework agreed with the Government. In pursuing these purposes and activities the Agency shall act:
- in accordance with its statutory obligations set out in the Act and any directions or guidance issued by the Government (in particular the policy framework set by the Government through guidance);
 - in accordance with this Management Statement and Financial Memorandum; and
 - within the resources made available by Parliament and otherwise.
- 1.5 Section 5 of the Act gives each Agency the power to do anything it considers expedient for its purposes, or for incidental purposes, subject to the need for consent by the Secretary of State to:
- give financial assistance;
 - dispose of land at less than the best consideration which can reasonably be obtained, or
 - form, or acquire and interest in, a body corporate.
- 1.6 The Secretary of State has powers to give directions and guidance for any purpose concerning the exercise of RDA functions as well as for a variety of specific purposes. The Secretary of State also has a variety of other controls over RDA activities and expenditure. In particular he/she may determine the financial duties of the RDAs under Section 9 of the Act and has power to place conditions on the uses to which RDAs may apply grant in aid or grant paid to them under Section 10 of the Act.

1. The London Development Agency has been established under the Regional Development Agencies Act 1998 as amended by the Greater London Authority Act 1999, and is subject to separate financial arrangements.

The Documentation Package

- 1.7 This Management Statement and the Financial Memorandum forms part of a suite of documents, as set out below, that describe the relationship between the sponsoring Department, the funding Departments, the Treasury, the Agency and the Government Office.
- Management Statement;
 - Direction on the Annual Accounts;
 - Financial Memorandum;
 - Agreement between Accounting Officers (sponsor and funding Departments)
 - Guidance note on the exercise of the Secretary of State for Trade and Industry's powers under Section 5 of the Act (sponsor and Agencies);
 - Regional Development Agencies Sponsorship Guidance between the Government Offices and DTI RDA Finance and Sponsorship Directorate.
 - New RDA Tasking Framework and Corporate Plan Guidance²
 - Regional Economic Strategy Guidance³

Purpose of the Management Statement and Financial Memorandum

- 1.8 This Management Statement and the Financial Memorandum form key parts of the framework. They set out the relationship between Government and the Agency at a strategic level and the broad framework within which the Agency will operate, in particular:
- the rules and guidelines relevant to the exercise of the Agency's functions, duties and powers;
 - certain of the conditions under which any public funds are paid to the Agency and how the Agency is to be held to account for its performance; and
 - the financial provisions which the Agency is required to observe.
- 1.9 The Management Statement and the Financial Memorandum summarise the roles and aims of the Agency, its duties and powers, the responsibilities of its Chair, Members and Chief Executive and its relationship with the Government. They set out the arrangements for corporate planning, monitoring and reporting, for financial planning and for the Agency's accounting, auditing and reporting procedures.
- 1.10 The Management Statement and Financial Memorandum are issued under the powers of the Secretary of State:
- with the approval of the Treasury to determine, following consultation with the Agency, the financial duties of the Agency, (Section 9 of the Act);
 - with the approval of the Treasury, to pay grant in aid or grant to the Agency on such terms as the Secretary of State thinks fit (Section 10 of the Act);
 - to require the Agency to provide information, advice or assistance (Section 16 of the Act); and
 - to give directions and guidance in relation to the exercise of the Agency's functions (Section 27 of the Act).

2. www.dti.gov.uk/rda/info/Tasking_Framework.htm

3. www.dti.gov.uk/rda/info/res.htm

Arrangements for Reviewing the Management Statement and Financial Memorandum

- 1.11 This Management Statement and the Financial Memorandum have been drawn up by the Government in consultation with the [name of the Agency] (the Agency) established under the Act. The Agency or the Secretary of State may propose amendments at any time. The Secretary of State will determine what changes, if any, are to be incorporated. Legislative changes will take precedence over any part of this document. Significant variations to this document will be cleared with the Treasury.
- 1.12 This document will be formally reviewed as and when required, after consultation with the Agency, to reflect changes in policy, responsibility, or accountability. The Department will consult the Treasury and/or Cabinet Office on any significant variation proposed. The Department may, from time to time, after discussions with the Agency carry out, or require the Agency to carry out, reviews of the Agency's management systems.
- 1.13 The Government will resolve any question about the interpretation of this document after consultation with the Agency.
- 1.14 Copies of this document and any subsequent substantive amendments will be placed in the Libraries of both Houses of Parliament. Copies will also be made available to members of the public on the Agency's website.

Sponsor Department for the Agency

- 1.15 The sponsor Department for the Agency is the Department of Trade and Industry ("the Department") on behalf of the Government as a whole. Day to day contact will be between the Agency and the Government Office for [name of GO]. An Accounting Officer Agreement between the Department and the other funding Departments sets out the roles and responsibilities of the Accounting Officers of these Departments in the sponsorship of RDAs and how they will be accountable to Parliament. The Sponsorship Agreement between the Department and the Government Offices sets out the roles that each will play in the sponsorship of the Agency⁴

Classification of the Agency

- 1.16 For administrative purposes, the Agency is classified as an executive Non-Departmental Public Body (NDPB). For national accounts purposes, the Agency is classified to the central Government sector. References to the Agency include all its subsidiaries and joint ventures that are classified to the public sector for national accounts purposes.
- 1.17 If such a subsidiary or joint venture is created, there shall be a document setting out the arrangements between it and the Agency (paragraph 5.24 of the financial memorandum).

2. RESPONSIBILITIES AND ACCOUNTABILITY

The Secretary of State

- 2.1 The Act provides that the Secretary of State may issue guidance or directions to the Agency in relation to the exercise of its functions (Section 27 of the Act) and in particular on the preparation and updating of the regional strategy (Section 7 of the Act). Such guidance, together with the Act itself, will be used by the Secretary of State to help set the policy and performance framework of the Agency. The purpose of the policy framework is to ensure that the Agency works in harmony with other Regional Development Agencies and with Government and that its programmes are in line with national priorities.

4. Regional Development Agencies Sponsorship Guidance between the Government Offices for the Regions (GOs) and REGIONS - RDA Finance and Sponsorship Directorate Department of Trade & Industry (DTI) Sponsorship of the Regional Development Agencies

It also ensures that particular programmes or projects do not conflict with national or EU rules or agreements, such as on state aids.

2.2 The Secretary of State is accountable to Parliament for the activities and performance of the Agency. His/Her responsibilities include:

- approving the Agency's strategic objectives and the policy and performance framework within which the Agency will operate (as set out in this Management Statement and Financial Memorandum and associated documents);
- keeping Parliament informed about the Agency's performance;
- approving the amount of grant-in-aid/grant/other funds to be paid to the Agency, and securing Parliamentary approval, and
- carrying out responsibilities specified in the Act including appointments to the Board, approving the terms and conditions of Board members, approval of terms and conditions of staff, and laying of the annual report and accounts before Parliament.

2.3 The Secretary of State remains responsible for the Agency, but may refer enquiries and representations from members of Parliament and others, to the Agency for reply. In other cases, the Agency shall provide the Secretary of State with the information needed to answer such enquiries.

The Accounting Officer of the Sponsor Department

- 2.4 The Permanent Secretary, as the Department's principal Accounting Officer, is responsible for the overall organisation, management and staffing of the sponsor Department and for ensuring that there is a high standard of financial management in the Department as a whole. The principal Accounting Officer is accountable to Parliament for the issue of any grant-in-aid or grant to the Agency. The principal Accounting Officer designates the Chief Executive of the Agency as the Agency's Accounting Officer, issuing the terms and requirements of the appointment and ensuring that the appointee is suitably trained and fully aware of the responsibilities involved, and may withdraw the accounting officer designation if he/she believes that the incumbent is no longer suitable for the role.
- 2.5 In particular, the principal Accounting Officer of the Department shall ensure that:
- the Agency's strategic aims and objectives support the Department's wider strategic aims and current Public Services Agreement (PSA);
 - the financial and other management controls applied by the Department to the Agency are appropriate and sufficient to safeguard public funds and for ensuring that the Agency's compliance with those controls is effectively monitored ("public funds" include not only any funds granted to the Agency by Parliament but also any other funds generated by approved activities or falling within the stewardship of the Agency);
 - the internal controls applied by the Agency conform to the requirements of regularity, propriety and good financial management;
 - any grant-in-aid to the Agency is within the ambit and the amount of the Request for Resources and that Parliamentary authority has been sought and given, and
 - The responsibilities of a Departmental Accounting Officer are set out in more detail in the annex to Chapter 4 of Government Accounting.

Sponsoring Teams in the Department and Government Offices

- 2.6 Within the Department, RDA Sponsorship and Finance Directorate (the Directorate) is responsible for setting the policy and resource framework for the Agency. The Directorate, in consultation as necessary with the relevant Departmental Accounting Officer, is the primary source of advice to the Secretary of State on the discharge of his/her responsibilities in respect of the Agency, and the [name of the GO] is the primary point of contact for the Agency on all matters. The Government Office sponsoring team shall carry out its duties under a senior officer who shall have primary responsibility for overseeing the activities of the Agency.
- 2.7 The Directorate shall advise the Secretary of State on:
- an appropriate budget for the Agency in the light of the Department's overall public expenditure priorities, and
 - how well the Agency is achieving its strategic objectives and whether it is delivering value for money.
- 2.8 In support of the Departmental Accounting Officer the Directorate and Government Office sponsoring team shall:
- On performance and risk management –***
- monitor the Agency's activities on a continuing basis through an adequate and timely flow of information from the Agency on performance, budgeting, control and risk management, including early sight of the Agency's Statement on Internal Control;
 - address in a timely manner any significant problems arising in the Agency, whether financial or otherwise, making such interventions in the affairs of the Agency as the Department judges necessary, and
 - periodically carry out a risk assessment of the Agency's activities to inform the Department's oversight of the Agency; strengthen these arrangements if necessary; and amend the management statement accordingly. The risk assessment shall take into account the nature of the Agency's activities; the public monies at stake; the

body's corporate governance arrangements; its financial performance; internal and external auditors' reports, the openness of communications between the body and the Department; and any other relevant matters;

on communication with the Agency -

- inform the Agency of relevant Government policy in a timely manner; advise on the interpretation of that policy; and issue specific guidance to the Agency as necessary, and
- bring concerns about the activities of the Agency to the attention of the full Board, and require explanations and assurances from the Board that appropriate action has been taken.

The Chairman of the Agency

2.9 The Chairman is appointed by the Secretary of State in line with the Code of Practice issued by the Commissioner for Public Appointments.

2.10 The Chairman is responsible to the Secretary of State. The Chairman shall aim to ensure that the Agency's policies and actions support the wider strategic policies of the Secretary of State; and that the Agency's affairs are conducted with probity. The Chairman shares with other Board members the corporate responsibilities set out in paragraph 2.16 below, and in particular for ensuring that the Agency fulfils the aims and objectives set by the Secretary of State.

2.11 The Chairman has a particular leadership responsibility on the following matters:

- formulating the Board's strategy;
- ensuring that the Board, in reaching decisions, takes proper account of guidance provided by the Secretary of State or department;
- promoting the efficient and effective use of staff and other resources;
- encouraging high standards of propriety;
- representing the views of the Board to the general public.

- 2.12 The Chairman shall also:
- ensure that all members of the Board, when taking up office, are fully briefed on the terms of their appointment and on their duties, rights and responsibilities, and receive appropriate induction training, including on the financial management and reporting requirements of public sector bodies and on any differences which may exist between private and public sector practice;
 - advise the Secretary of State of the needs of the Agency when Board vacancies arise, with a view to ensuring a proper balance of professional and financial expertise;
 - assess the performance of individual Board members **annually** and when they are being considered for re-appointment to the Board, and
 - ensure that a list of matters reserved for the Board's decision is maintained by the Agency. The list should be agreed with the Department.
- 2.13 The Chairman shall also ensure that a Code of Practice for Board Members is in place, based on the Cabinet Office's model Code of Practice for Board Members of Public Bodies. The Code shall commit the Chairman and other Board Members to the Nolan seven principles of public life, and shall include a requirement for a comprehensive and publicly available register of Board Members' interests.
- 2.14 Communications between the Board and the Secretary of State shall normally be through the Chairman. The Chairman shall ensure that the other Board members are kept informed of such communications.

The Agency's Board

- 2.15 The Board Members are appointed by the Secretary of State in line with the Code of Practice issued by the Commissioner for Public Appointments.
- 2.16 The Board has corporate responsibility for ensuring that the Agency fulfils the aims and objectives set by the Secretary of State and for promoting the efficient and effective use of staff and other resources by the Agency. To this end, and in pursuit of its wider corporate responsibilities, the Board shall:
- establish the overall strategic direction of the Agency within the policy and resources framework determined by the Secretary of State;
 - ensure that the Secretary of State is kept informed of any changes which are likely to impact on the strategic direction of the Agency or on the attainability of its targets, and determine the steps needed to deal with such changes;
 - ensure that any statutory or administrative requirements for the use of public funds are complied with; that the Board operates within the limits of its statutory authority and any delegated authority agreed with the sponsor Department, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Board takes into account guidance issued by the sponsor Department;
 - ensure that the Board receives and reviews regular financial information concerning the management of the Agency; is informed in a timely manner about any concerns about the activities of the Agency; and provides positive assurance to the Department that appropriate action has been taken on such concerns;
 - demonstrate high standards of corporate governance at all times, including by using the independent audit committee (paragraph 5.5) to help the Board to address the key financial and other risks facing the Agency, and
 - appoint, with the Secretary of State's approval, a Chief Executive to the Agency and, in consultation with the Government Office, set performance objectives which give due weight to the proper management and use of public monies.
- 2.17 Individual Board members shall act in accordance with their wider responsibility as Members of the Board – namely to:

- comply at all times with the Code of Practice (paragraph 2.13 above) that is adopted by the Agency and with the rules relating to the use of public funds and to conflicts of interest;
- not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations;
- comply with the Board's rules on the acceptance of gifts and hospitality, and of business appointments, and
- act in good faith and in the best interests of the Agency.

The Chief Executive's Role as Accounting Officer

2.18 The Chief Executive of the Agency is designated as the Agency's Accounting Officer by the Principal Accounting Officer of the Department.

2.19 The Accounting Officer of the Agency is personally responsible for safeguarding the public funds for which he/she has charge; for ensuring propriety and regularity in the handling of those public funds; and for the day-to-day operations and management of the Agency.

2.20 As Accounting Officer the Chief Executive shall exercise the following responsibilities in particular:

- on planning and monitoring -
- establish, in agreement with the Department, the Agency's corporate plan which will address the priorities identified in the Regional Economic Strategy for the region and contribute to the delivery of the Government's PSA Targets covered by the Tasking Frame and reflect the Agency's Strategic Added Value as set out in the Corporate Planning guidance;
- inform the Department of the Agency's progress towards the delivery of the Corporate Plan;
- inform the Department of the Agency's progress towards delivery of the Agency's Efficiency Plan, and
- ensure that timely forecasts and monitoring information on performance and finance are provided to the Department; that the Department is notified promptly if overspends or underspends are likely and that corrective action is taken; and
- that any significant problems, whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the Department in a timely fashion.

on advising the Board –

- advise the Board on the discharge of its responsibilities as set out in this document, and in any other relevant instructions and guidance that may be issued from time to time;
- advise the Board on the Agency's performance compared with its aims and objectives;
- ensure that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that standard financial appraisal techniques are followed as far as this is practical, and
- take action as set out in paragraphs 14-18 of the Agency Accounting Officer Memorandum if the Board, or its Chairman, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration or efficiency or effectiveness;

on managing risk and resources -

- ensure that a system of risk management is maintained to inform decisions on financial and operational planning and to assist in achieving objectives and targets;
- ensure that an effective system of programme and project management and contract management is maintained;
- ensure that all public funds made available to the Agency including any approved income or other receipts are used for the purpose intended by Parliament, and that such moneys, together with the Agency's assets, equipment and staff, are used economically, efficiently and effectively;
- ensure that adequate internal management and financial controls are maintained by the Agency, including effective measures against fraud and theft;
- maintain a comprehensive system of internal delegated authorities which are notified to all staff, together with a system for regularly reviewing compliance with these delegations, and
- ensure that effective personnel management policies are maintained.

on accounting for the Agency's activities -

- sign the accounts and be responsible for ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Secretary of State;
- sign a Statement of Accounting Officer's responsibilities, for inclusion in the Annual Report and Accounts;
- sign a Statement on Internal Control regarding the Agency's system of internal control, for inclusion in the Annual Report and Accounts;
- ensure that effective procedures for handling complaints about the Agency are established and made widely known within the Agency;
- act in accordance with the terms of this document and with the instructions and guidance in *Government Accounting and Non-Departmental Public Bodies: Annual Reports and Accounts Guidance*⁵ and other instructions and guidance issued from time to time by the Department, the Treasury and the Cabinet Office - in particular, the Treasury documents *The Responsibilities of an NDPB Accounting Officer* and *Regularity and Propriety*, both of which the Chief Executive shall receive on appointment. Paragraph 7.1 of the Financial Memorandum refers to other key guidance, and
- give evidence, normally with the Accounting Officer of the sponsor Department, when summoned before the Committee of Public Accounts on the use and stewardship of public funds by the Agency.

The Chief Executive's Role as Consolidation Officer

- 2.21 For the purposes of Whole of Government Accounts, the Chief Executive of the Agency is normally appointed by the Treasury as the Agency's Consolidation Officer.
- 2.22 As the Agency's Consolidation Officer the Chief Executive shall be personally responsible for preparing the consolidation information that sets out the financial results and position of the Agency, for arranging for its audit and for sending the information and the audit report to the Principal Consolidation Officer nominated by the Treasury.

5. Issued by Central Accounting Team, HMT 2002-03 (latest version)

- 2.23 As Consolidation Officer, the Chief Executive shall comply with the requirements of the Consolidation Officer Memorandum and shall, in particular:
- ensure that the Agency has in place and maintains sets of accounting records that will provide the necessary information for the consolidation process, and
 - prepare the consolidation information (including the relevant accounting and disclosure requirements and all relevant consolidation adjustments) in accordance with the consolidation instructions and directions "*Dear Consolidation Officer*" (DCO) and "*Dear Consolidation Manager*" (DCM) letters issued by the Treasury⁶ on the form, manner and timetable for the delivery of such information.

Delegation of Duties

- 2.24 The Chief Executive may delegate the day-to-day administration of his/her Accounting Officer and Consolidation Officer responsibilities to other employees in the Agency. However, he/she shall not assign absolutely to any other person any of the responsibilities set out in this document.

6. Further guidance and letters can be found at <http://www.wga.gov.uk/>

The Chief Executive's Role as Principal Officer for Ombudsman cases

- 2.25 The Chief Executive is the Principal Officer for handling cases involving the Parliamentary Commissioner for Administration. As Principal Officer he/she shall inform the Permanent Secretary (Principal Accounting Officer) of the sponsor Department of any complaints about the Agency accepted by the Ombudsman for investigation, and about the Agency's proposed response to any subsequent recommendations from the Parliamentary Ombudsman.

3. CORPORATE PLANNING, MONITORING AND REPORTING

The Corporate Plan

- 3.1 The Agency shall, in consultation with the Department, prepare and submit a Corporate Plan in accordance with guidance issued by the Department. The Plan shall be subject to approval by the Secretary of State and other Government Departments.

- 3.2 The Corporate Plan will detail how the Agency will:

- allocate resources to address the priorities identified in the regional economic strategy for the region which are the responsibility of the Agency,
- meet the outcomes and milestones covered by the tasking framework⁷,
- identify the administration resources it requires for the period covered by the Corporate Plan, and
- achieve its efficiency plan in line with Treasury / Office Government Commerce guidelines.

The Corporate Plan will be published and will be used by the Government to inform the Public Expenditure Settlement and to provide benchmarks, against which the Agency's performance, and the performance of its Chief Executive, will be monitored. Any significant changes to the Corporate Plan requires prior approval of the Department.

- 3.3 The requirements of the corporate planning process are explained in separate guidance⁸.

Provision of Information

- 3.4 The Agency will provide information, in the form of a report or otherwise and including forecasts, analysis and contract management information as the Government may reasonably require to:

- inform decisions on the future allocation of public expenditure; and
- to satisfy itself that the Agency is operating within national and relevant regional policy frameworks and this Management Statement and Financial Memorandum.

- 3.5 To help meet the information requirements above, as well as to satisfy the need of its Accounting Officer to secure the effective control of expenditure, the Agency shall:

- establish and maintain systems for timely, reliable and consistent recording and forecasting of expenditure and commitments; and
- ensure that forecasts are sufficiently accurate to allow effective planning. To this end, key assumptions should be reviewed regularly and, where appropriate, discussed with the Department.

- 3.6 The Department will aim to agree with the Agency the timing and format of information required, wherever possible, and try to link requests to the agreed planning timetable.

7. www.dti.gov.uk/rda/info/Tasking_Framework.htm

8. This guidance is issued from time to time.

4. EFFICIENCY PLANS

The Efficiency Plan

- 4.1 Efficiency Plans⁹ were commissioned by the Department on behalf of HM Treasury for the SR2004 future 3 year periods (April 2005 - March 2008). The Agency, together with other Agencies, is required to review all its activities (across both administration and programme budgets) to see if efficiencies can be made to meet targets set out in Spending Reviews. The 2004 Spending Review required the Agencies to produce savings of 2.5% year on year, at least half of which must be cashable¹⁰ and released back into the Single Pot.
- 4.2 The Plan needs to identify the areas reviewed, the methodology applied and the outcome. The Agency will be responsible for ensuring that it delivers its contribution to the delivery of the 2.5% per year efficiencies within budget., and ensure that it reports to Departments on how the Agency intends to deliver and measure these savings and what the recyclable element will be reprioritised towards. This will not affect the Single Pot made available to the Agency.
- 4.3 The plans will require the approval of the Department, HM Treasury, DDPM and the Office of Government Commerce. Details may be published and used to inform future Spending Reviews.

Monitoring

- 4.4 The Agency is required to submit quarterly progress reports to the Department on how the Agency is achieving its Efficiency Plan in time to feed into central government monitoring processes.

5. ACCOUNTS, AUDITING AND REPORTING

Accounting Requirements.

- 5.1 The accounting requirements for the Agency are set out in Section 14 of the Act and the Accounts Direction issued by the Secretary of State. The Agency is required to retain accounting documents in line with the requirements of *Government Accounting* (Chapter 12.2).
- 5.2 The accounts must be prepared in accordance with the relevant statutes and the specific Accounts Direction issued by the Department, with the consent of the Treasury. The Accounts Direction will specify the form and content of the accounts, the information to be contained in the statements, the manner in which the information is to be presented, and the principles according to which the statements are to be prepared.
- 5.3 Information on performance against key financial targets will be included in the notes to the accounts and will therefore be within the scope of the audit.

Internal Auditing Requirements

- 5.4 The Agency shall maintain effective arrangements for internal audit which accord with the objectives, standards and practices set out in the *Government Internal Audit Standards* (GIAS)¹¹. Internal Audit primarily provides an independent and objective opinion to the Accounting Officer on risk management, control and governance, by measuring and evaluating their effectiveness in achieving the organisation's objectives. Internal Audit also provides an independent and objective

9. An Efficiency Planning Technical note can be found on http://www.dti.gov.uk/pdfs/ETN_22Oct.pdf

10. Cashable savings represent the potential to release savings in cash for other areas of programme spend. For example, it would ordinarily include savings through reduced procurement costs or reduced back office headcounts.

11. Available in hard copy and CD from the Stationery Office.

consultancy service specifically to help line management improve the organisation's risk management, control and governance.

- 5.5 The Agency shall set up an independent audit committee as a committee of its Board in accordance with the Cabinet Office's Guidance on Codes of Practice for Public Bodies and the Treasury's Audit Committee guidance.
- 5.6 The Agency's Head of Internal Audit shall submit to the Agency's Accounting Officer annually his professional opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes. Copies of this annual opinion and the documents listed below (including any amendments thereto) shall be provided to the Department promptly:
- Internal Audit terms of reference;
 - Details of the Agency's Audit Committee arrangements;
 - Audit Strategy;
 - Periodic work plans;
 - The Head of Internal Audit's annual report;
 - Quarterly lists of Internal Audit reports;
 - Annual report on fraud and theft involving the Agency, and
 - Annual Statement of Internal Control and Risk.
- 5.7 The Internal Audit service shall have direct access to the Agency Chief Executive and Accounting Officer and to the Board. It should provide regular reports to the Agency Chief Executive and Accounting Officer and also report regularly to the Board through the Audit Committee on its programme, recommendations and their implementation.
- 5.8 The Internal Audit service may be provided by a dedicated in-house team or bought in.
- 5.9 The Agency shall arrange for periodic quality reviews of its internal audit in accordance with the GIAS. The Department shall consider whether it can rely on these reviews to provide assurance on the quality of internal audit. However, the Department reserves a right of access to carry out independent reviews of internal audit in the Agency (see below).

Auditing by the Department of Trade and Industry (the Department)

- 5.10 The Department and other funding Departments shall have access to all of the records of the Agency (including those of the Agency's internal auditors) and may carry out studies into the economy, efficiency and effectiveness with which the Agency has used its resources and the regularity, propriety and value for money of the Agency's expenditure. Under these provisions the Department may also carry out evaluations of the Internal Audit arrangements put in place by the Agency in order to be able to provide an assurance to the Departmental Accounting Officer about the maintenance of appropriate standards and performance.

Auditing by the Comptroller and Auditor General

- 5.11 Section 15 of the Act provides that the annual accounts of the Agency shall be subject to external audit by the Comptroller and Auditor General (CGAG). The Agency shall ensure that the Department has received a copy of the final draft of the annual accounts so that the Department has the opportunity to comment on the contents and presentation before the accounts are sent to the Comptroller and Auditor General. The Agency shall ensure that the final version of any management letters and other reports sent to the Agency by the National Audit Office, are copied to the Department immediately after receipt by the Agency. In accordance with the National Audit Act 1983, the Comptroller and Auditor General may also carry out examinations into the economy, efficiency and effectiveness with which the Agency has used its resources in discharging its functions. Section 15(2) of the Act requires the audited accounts of the Agency, and any reports on them by the Comptroller and Auditor General, to be sent to the Secretary of State as soon as reasonably practicable after the report is received. The Secretary of State will lay the accounts and report before both Houses of Parliament.

normally within 4 months of the end of the financial year. Before being laid before Parliament the reports and accounts will be submitted for Ministerial approval.

Auditing of European Funds

- 5.12 The Agency should be aware that receipts and payments from European Union bodies are subject to audit by the European Union (EU). Where the Agency receives funding from the EU, it may be subject to an audit by the European Court of Auditors. It may also be subject to audit from other auditors acting under the terms governing the provision of the financial assistance or the protocol arrangements agreed between Government Departments and the EU.

Annual Report

- 5.13 Section 17 of the Act requires the Agency to prepare an annual report on its activities as soon as reasonably practicable after the end of the financial year; this should be provided no later than 3 months after the end of the financial year. The report shall be sent to the Secretary of State who shall publish it together with the Agency's audited annual accounts and lay copies before both Houses of Parliament. The annual report shall:

- comply with appropriate guidance on annual reports issued by the Cabinet Office and have regard to Chapter 2 of Executive Non-Departmental Public Bodies – Annual Reports and Accounts Guidance issued by the Treasury;
- be in such form and contain such information as the Secretary of State may specify by directions to the Agency;
- set out in accordance with any other directions given to the Agency, and
- outline the Agency's main activities and performance, ensuring consistency with information provided in the Performance Reporting System, during the previous financial year.

The required form and content of the report, as directed by the Secretary of State under Section 17(2) of the Act, is contained at Annex A.

6. PUBLICITY AND USE OF PR CONSULTANTS

Publicity and Advertising

- 6.1 The Conventions of government publicity and advertising, set out at <http://www.comms.gov.uk/guidance/propriety/public-relations.htm> do not formally apply to the Agency. Nevertheless, the general principles of value for money and propriety, which are set out in the Conventions, are applicable to the Agency. In particular the Agency should ensure that any publicity that is issued is:

- Relevant to the Agency and its responsibilities;
- Be objective and explanatory, not tendentious or polemical;
- Not party political and not liable to misrepresentation as being party political, and
- Produced and distributed in an economic and relevant way, having regard to the need to justify the costs as proper expenditure of public funds

- 6.2 The Agency may finance or otherwise support marketing or branding campaigns, for example to promote the region or specific areas within it as a location for business investment. The Agency should take care to ensure that such campaigns, and other publicity, are not produced or disseminated in such a way that they may be considered explicitly or by implication to denigrate or in any other way reflect adversely on other regions or nations of the UK (named or unnamed). The Agency may finance or otherwise support regional marketing or branding campaigns, for example to promote the region as a location for business investment. In addition, the Agency should ensure that such campaigns do not explicitly or by implication denigrate or in any other way defame other regions or nations of the UK (named or unnamed).

Use of Public Relation Consultants

- 6.3 In some circumstances it may be appropriate for the Agency to employ public relations or other consultancies in developing public representation of their work. Any tasks for which PR consultants are engaged need to be closely defined and controlled. It will always be improper use of public funds for the Agency to employ PR or other consultants to lobby parliament or government departments in an attempt to influence government policy or obtain higher funding.

7. FREEDOM OF INFORMATION ACT AND CONSULTING THIRD PARTIES ON REQUESTS FOR INFORMATION

The Act

- 7.1 The public right of access to information under the Freedom of Information Act came into effect from 1 January 2005. A guide for NDPBs on implementation of the Act is available online at www.nao.org.uk/publications/foiguide.pdf.

Consulting Third Parties on Requests for Information

- 7.2 A decision to disclose information is ultimately a matter for the Agency. However, consultation with a third party that would have an interest in the outcome of a request is a vital aspect of ensuring sound administration of the Act and helps provide a coherent approach across the public sector to dealing with requests. All third parties should be consulted whether they are an individual, a company, an organisation or another public body prior to making the disclosure. This arrangement is set out in part IV of the underlying Code of Practice on FOI administration drawn up under Section 45 of the Act. All Agency staff dealing with FOI requests should be made aware of the need for third party consultation.

8. AGENCY STAFF

- 8.1 Within the arrangements approved by the Secretary of State and the Treasury, the Agency has responsibility for the recruitment, retention and motivation of its staff. The Agency will ensure that:

- its rules for the recruitment and management of staff create an inclusive culture in which diversity is fully valued; where appointment and advancement is based on merit; and where there is no discrimination on grounds of gender, marital status, sexual orientation, race, colour, ethnic or national origin, religion, disability, community background or age¹²;
- the level and structure of its staffing, including gradings and numbers of staff, is appropriate to its functions and the requirements of efficiency, effectiveness and economy;
- the performance of its staff at all levels is satisfactorily appraised and the Agency's performance measurement systems are reviewed from time to time;
- its staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve the Agency's objectives;
- proper consultation with staff takes place on key issues affecting them;
- adequate grievance and disciplinary procedures are in place;
- whistleblowing procedures consistent with the Public Interest Disclosure Act 1998 are in place, and
- a code of conduct for staff is in place based on the Cabinet Office document *Model Code for Staff of Executive Non-Departmental Public Bodies*.

- 8.2 The Financial Memorandum sets out the Agency's financial duties in respect of its staffing and pension arrangements. Within those requirements, the Agency is responsible for the appointment and management of its staff.

12. Article 13 Council Directive 2000/78/EC.

9. REVIEWING THE ROLE OF THE AGENCY

9.1 The role of the Agency shall be reviewed periodically, in accordance with the business needs of the Government and of the Agency.

Department of Trade and Industry

October 2005

**FORM AND CONTENT OF THE ANNUAL REPORT;
as directed by the Secretary of State under Section 17(2) of the Act**

Although it is not the Department's intention to set out in detail the exact form and content of the Agencies' Annual Reports, there is certain information that it would expect the Regional Development Agencies to provide a statement:

1. a statement by the Chair;
2. a review by the Chief Executive;
3. a detailed report on the Agency's activities ;
4. a Financial Summary, detailing funding;
5. a "Operating and Financial Review"¹³ incorporated in the body of the report;
6. the specification of performance targets and the extent to which these have been met; and
7. Freedom of Information, for example the number of requests for information.

The Regional Development Agencies Act 1998 requires that the Report should set out any directions given to the Agency under Part I of the Act during the period to which the Report relates.

The report of the Agency's activities should cover what the Agency has done in support of its purposes, how the functions delegated to it have been carried out and its progress on drawing up and reviewing its strategy. The Agency will also wish to consider including a report on the partnerships operating in the region, both those that have influenced the Agency's work and those whose work the Agency has had influence on.

These Annual Reports should be presented to the Secretary of State for Trade and Industry, and copied to the First Secretary of State for the Office of the Deputy Prime Minister, the Secretary of State for Education and Skills and the Secretary of State for Environment, Food and Rural Affairs. The Secretary of State for Trade and Industry will lay a copy of the Report before Parliament and will arrange for copies to be published in such manner as is considered appropriate.

13. Guidance is contained in "Next Steps Agencies, Trading Funds and Non-Departmental Public Bodies – Guidance on Annual Reports" issued by the Machinery of Government Secretariat in January 2003, and which can be found on: www.cabinet-office.gov.uk/agencies-publicbodies/guidedpts/docs/annualreport-guidance.pdf, and in the NAO's Financial and Audit Reporting guidance.

FINANCIAL MEMORANDUM

Of The Agency

(This Financial Memorandum replaces the Agency's Consolidated Financial Memorandum of 2004)

1. INTRODUCTION

Purposes of the Financial Memorandum

- 1.1 This Memorandum, issued under the powers of the Secretary of State with the approval of the Treasury, supplements the Management Statement and sets out the terms on which the Secretary of State will pay grant in aid or grant to the (Agency Name) the "Agency" towards expenses incurred in the exercise of the Agency's functions under Section 5 (2) (a) of the Regional Development Agencies Act 1998 ("the Act"). It also sets out the general principles under which the Secretary of State will lend money under Section 13 of the Act to the Agency or consent to borrowing by the Agency under Section 11 of the Act.
- 1.2 Nothing in this Memorandum is to be construed as consent under Section 11 of the Act (borrowing) except for the general consent given in paragraph 3.14 to short term overdrafts. Also, with the exception of paragraph 4.3 and Appendix A in which the Secretary of State consents to the giving of financial assistance, nothing in this Memorandum is to be construed as consent under Section 5(2)(b) or Section 5(2)(c)¹⁴ of the Act.
- 1.3 This Memorandum:
- complements the provisions concerning the general relationship between the Government and the Agency set out in the Management Statement; and
 - operates in addition to (and not in substitution for) statutory requirements or any specific directions or determinations or guidance made by the Government under statutory powers or such other terms as the Secretary of State may specify in relation to the payment of grant in aid or grant.

2. ALLOCATIONS AND BUDGETING

- 2.1 The Agency's Resource Budgets are formally allocated by the Department following approval of the Corporate Plan (see Section 3 of the Management Statement).

Expenditure Limits

- 2.2 Within the overall limits set for its expenditure, **the Agency may not alter the balance between Capital, Resource Investment and Resource Consumption without the prior agreement of Government.** There is a strong presumption against agreement being given by Government to switch funding from Capital and Resource Investment to Resource Consumption. This is because compensating changes would need to be found in other Agencies, or fresh bids made in the Public Expenditure System. However, Agencies may agree between themselves exchanges within these categories so long as:
- the overall balance of expenditure remains the same across the Agencies involved in the exchange; and
 - the Government is advised **in advance** of the amount of the proposed exchange of resources.

Advice about the operation of End of Year Flexibility is given at Appendix H.

The Agency shall not, without prior written Departmental approval, enter into any undertaking to incur any expenditure which falls outside the Agency's delegations.

Resource Budgeting

- 2.3 Guidance on budgeting is contained at Appendix E to this Memorandum.

14. Disposing of land at less than best consideration or forming or acquiring an interest in a body corporate.

Contingency Funds

- 2.4 It is a matter for the Agency to determine, taking into account professional advice, the arrangements for contingencies generally but the Agency is required to hold at least £1m of capital and £1m of resource consumption until the Agency is satisfied that it will be able remain within its approved budgets for the year, notwithstanding any contingencies that might arise in the remainder of the year.

3. INCOME OF THE AGENCY

Introduction

- 3.1 The resources of the Agency may comprise:
1. grant in aid or grant (see paragraphs 3.2-5);
 2. receipts (paragraphs 3.7 - 12);
 3. borrowing (paragraphs 3.13 -14);
 4. investment income (paragraphs 3.23 -24);
 5. fees and charges (paragraphs 3.25);

Grant in Aid and Grant (Cash not Resource requirement)

- 3.2 Grant in aid or grant may be payable by the Department to the Agency to meet its expenditure, under Section 10 of the Act.
- 3.3 Any grant in aid or grant will be paid from the appropriate Departmental Main Supply Estimates on a monthly basis.
- 3.4 In the first month of each quarter, the Agency will provide the Department with a profile by month of the cash that it needs for that quarter, and for each subsequent quarter of the financial year. The Agency's forecasts of its grant in aid or grant requirement should be as accurate as possible and the Agency will be set targets for the accuracy of its forecasts. This will be detailed in the Department's "Cash Management System" which will be provided to the Agency.
- 3.5 The Agency's estimation of its cash requirement will inform the Department's own estimation for overall cash requirement. Where a change in its overall cash provision is needed, the Department will seek this through Supplementary Estimates. The figures provided for the final Supplementary Estimates in January (the Spring Supplementary) may put a ceiling on the amount of cash that the Agency will be able to claim in-year. Neither the Department nor the Agencies can exceed the cash provision set out in the Spring Supplementary.

Interface between the Monthly Grant in Aid Claims and Resource Monitoring Needs

- 3.6 Written applications for grant in aid to be paid on a monthly basis, incorporating a statement of need, should be made by the Agency to DTI monthly. Applications must incorporate a statement of cash held by the Agency and a cash flow statement. In each month it will also include the Agency's Resource Budgeting Workbook (see Appendix E). All applications for grant in aid must be signed by the Chief Executive as Accounting Officer or by a person notified in advance to the Government Office as having delegated authority to sign applications. The applications must be accompanied by a certification that:
1. the conditions applying to grant in aid payments have been duly observed to date; and
 2. further grant in aid is now required for purposes appropriate to the Agency's statutory functions).

Receipts

- 3.7 Receipts are classified as Negative Resource DEL (within which receipts relating to Resource Investment are counted separately) and Negative Capital DEL. Unless the Department agrees otherwise in writing, Capital and Resource Investment receipts may be used only for Capital and Resource Investment expenditure, and not for other Resource expenditure. Similarly resource DEL can only be used for that classification of expenditure.
- 3.8 Receipts (excluding EU Structural Funds) of up to 30% above the expected level or £1.0m, whichever is the greater, have resource budget cover and can be re-used¹⁵. Any additional receipts above that level (i.e. above 30% of the expected level or above £1.0m) may be used to increase the resource budgets in other RDAs¹⁶. This would be achieved by reducing the Agency's resource budget by an amount equivalent to the additional receipts.
- 3.9 The Agency should keep the Department informed of changes in receipt forecasts on a regular basis.
- 3.10 For each financial year, the Department will determine the resources to be available to the Agency under the Spending Review and will obtain from the Agency the expected level of receipts to be received for inclusion in the Main Supply Estimates. Those receipts will be additional to the resources made available as grant in aid or grant.

Interest Earned

- 3.11 Any interest earned by the Agency on its assets shall be given the same budgeting treatment as the cost of capital charge on the assets. Under SR2004 budgeting rules (which operate for 3 years from 2005-06), the cost of capital charge and any interest receipts on most DEL financed assets continue to score as resource DEL.
- 3.12 Any interest earned on cash balances arising from grant in aid or Exchequer funding may be netted off against bank charges. If there is a positive cash balance in excess of £25,000 at the end of the year this will lead to a reduction of grant-in-aid in the following financial year and be surrendered.

Borrowing and Leasing

- 3.13 The Agency's borrowing powers are set out in Section 11 of the Act. Within the terms of Section 11, the Agency may borrow from the Secretary of State and with the written consent of the Secretary of State, may borrow, temporarily, from bodies other than the Secretary of State. The Secretary of State may give consent for the Agency to enter into short-term loans and overdrafts (see the following paragraph which sets out a general consent to temporary borrowing) and under Section 29 of the Act may impose conditions. Any consent will specify the maximum amount that can be borrowed, the loan period and any other conditions as the Secretary of State may specify.
- 3.14 As an interim measure to aid business efficiency, the Secretary of State gives consent for the Agency to borrow, temporarily, via overdraft facilities up to a maximum of £5m for 30 days and, the Secretary of State will guarantee such

15. If the RDA exceptionally wishes to seek excess receipts greater than 30% they must ensure that this would not breach the 30% total limit for RDAs overall and must seek the prior approval of the Department.

16. The Department will notify Parliament of the amount of anticipated receipts (excluding EU receipts) across RDAs as a whole in the Introduction to the Main Supply Estimates. The notification will set an amount, including an additional 30% above the agreed level of receipts for RDAs generally, up to which additional receipts will automatically be reused. Receipts over and above that level will be treated as appropriations in aid, for which Parliamentary approval will need to be obtained through Supplementary Estimates, or surrendered as Consolidated Fund Extra Receipts (CFERs).

borrowing. The Agency should seek additional funding through the grant-in-aid mechanism, from the Department, to minimise the need for and ensure early repayment of, private sector funds.

- 3.15 Under Section 12 of the Act, the Agency may request the Secretary of State to guarantee loans it has taken out from persons other than the Secretary of State, subject to the controls by Parliament and by the Treasury set out in Section 12 of the Act.
- 3.16 RDAs may not enter into finance leases without the consent of the Secretary of State. The Agency must seek the agreement of the Department before entering into any deferred payment arrangements.
- 3.17 Departmental Expenditure Limit (DEL) cover is required for the net change in borrowing outstanding over the financial year and the amount of grant in aid available to the Agency in that year will be reduced accordingly.

Gifts, Bequests And Donations Received

- 3.18 The Agency is free to retain any gifts, bequests or similar donations made to the Agency, and these will be treated as receipts. The Agency must keep a written record of gifts, bequests and donations received, and of their estimated value and whether they are disposed of or retained. The Agency shall consider if there are any associated costs in doing so or any conflicts of interests arising.

End of Year Arrangements

- 3.19 Any provision for grant in aid or grant agreed by the Secretary of State but not paid to the Agency at the end of the financial year shall lapse. Any End of Year Flexibility needs approval by Parliament in the following year.

End Year Flexibility

- 3.20 Arrangements for End Year Flexibility (EYF) are set out in Appendix H.
- 3.21 All contributing Departments have agreed that they will seek to increase the Agency's resource budgets to the extent that the Agency has not fully consumed its resources and to the extent that the Department is entitled to EYF as a result. Where contributing Departments have paid their contributions to the Single Budget in full, it will be for DTI to fund any agreed EYF entitlement arising from less than full use of resources by an Agency in respect of those Departments' contribution.

Working Balances

- 3.22 Throughout the year the Agency shall keep cash, cash equivalent and bank balances at the minimum level consistent with efficient operations. Any cash surplus must be placed on deposit until it can be used. Grant in aid will be reduced by an amount equivalent to the net interest earned on these deposits and any interest received from the Rural Loans Fund.
- 3.23 The Agency should not build up unacceptably large cash balances during the financial year. It must also have reliable systems in place to allow the Department to monitor performance of expenditure against the grant in aid; and in the event of frequent unreliable forecasts, the Department will require the Agency to take steps to improve its forecasts. The Department will also take into account any unspent balances on grant in aid when determining instalments of grant in aid to be made during the year. Unspent balances in one financial year may be carried over to the next, but the Department will take into account such unspent balances of grant in aid when determining the instalment of grant in aid at the start of the next financial year.

Wider Markets

- 3.24 In accordance with the wider markets policy the Agency shall seek to maximise receipts from non-Exchequer sources provided that this is consistent with (a) the Agency's main functions; and (b) its corporate plan as agreed with the department.

Fees and Charges

- 3.25 Fees or charges for any services supplied by the Agency shall be determined in accordance with the Treasury's *Fees and Charges Guide*, and with the Freedom of Information Act.

4. EXPENDITURE BY THE AGENCY

Approval of Expenditure

4.1 Under the Single Programme, the Agency may undertake any activity which it considers expedient for its five purposes set out in Section 4 of the Regional Development Agencies Act 1998 (see paragraph 1.1 of the Management Statement), as set out in its agreed Corporate Plan and, subject to the controls set out in the Management Statement and this Financial Memorandum.

4.2 The Corporate Plan is the normal vehicle for seeking approval for expenditure that the Agency proposes to undertake. Where, subsequent to approval of the Corporate Plan, the Agency proposes to make significant changes to the allocation of resources or priorities they should consult the Department before incurring expenditure so that compliance with existing and / or remerging policies can be checked (see paragraph 3.2 of the Management Statement).

- 4.3 The Agency may, with the Secretary of State's consent, under Section 5(2)(a) of the Act, give financial assistance to further its objectives. The inclusion of any planned expenditure in the Corporate Plan does not obviate the need to seek formal, written approval where this expenditure is outside the financial approval limits as set out in Appendix A.
- 4.4 Regular information about the Agency's administration expenditure during the financial year is to be provided on the basis set out at Appendix B.

Financial Controls and Authorities for Expenditure Under the Single Budget

- 4.5 The Agency may incur expenditure within the limits set out at Appendix A, subject to any restrictions imposed by statute or this Memorandum (see in particular paragraph 4.6 below). Advice on novel, contentious or repercussive proposals is contained at paragraph 4.11 and a schedule of consents and approvals is set out in Appendix C. Section 5(2)(a) of the Act provides that the Agency may not give financial assistance without the consent of the Secretary of State. By virtue of Appendix A to this Memorandum, the Agency has consent to give financial assistance, usually by payment of grant, for any project, subject to the limits and conditions specified in the Appendix.
- 4.6 The Agency may seek consent to give financial assistance to other projects or schemes which are outside the single budget or for other forms of financial assistance. **The Agency may not make a loan to another body without first obtaining written consent (from REG RDA on behalf of the Secretary of State).** To do so otherwise will result in "unlawful" expenditure and may be noted in the Agency's Management Statement, prepared by the National Audit Office. Any such request should be presented as a fully worked-up business case.
- 4.7 The Agency shall make available to the Government such information about any projects or expenditure as the Government requires¹⁷.

Grants or Loans Made by the Agency

- 4.8 The Agency shall ensure that grants or loans made to organisations are accompanied by appropriate conditions, including an agreed set of objectives and measures and also obligations to ensure that the relevant books and records of such organisations are readily available for inspection by the Government and, where appropriate, representatives of the European Commission.
- 4.9 Where the Agency has financed expenditure on capital assets by third parties, the Agency should make appropriate arrangements to ensure that assets are not disposed of without the Agency's prior consent. The Agency shall, therefore, ensure that such repayment conditions are sufficient to secure the repayment of the Exchequer's due share of the proceeds of the sale. The Agency shall ensure that if the assets created by grants made by the Agency cease to be used by the recipient of the grant for the intended purpose, a proper proportion of the value of the asset shall be repaid to the Agency.

Financial Investments

- 4.10 The Agency shall not make any investments in traded financial instruments without the prior written approval of the department. Equity shares in ventures which further the objectives of the Agency shall equally be subject to departmental approval unless covered by a specific delegation¹⁸.

Novel, Contentious or Repercussive Proposals

- 4.11 The Agency must obtain the approval of the Department before incurring expenditure, for any purpose, that is novel, contentious or repercussive.

17 . See Guidance Note on the Exercise of the Secretary of State for Trade and Industry's Powers Under Section 5 of the Regional Development Agencies Act 1998, as amended by the Greater London Authority Act 1999 and separate guidance issued on acquiring an interest in corporate bodies.

18 . See guidance contained in the DTI - RDA Service Level Agreement and section (5)(2)(c) guide.

- 4.12 Where there is uncertainty whether the proposed expenditure might be so classified, the Agency should seek a ruling from the Department. Approval is not conveyed as part of the Department's approval for the Corporate Plan unless the Plan identifies individually those items of proposed expenditure that are or might be novel, contentious or repercussive.

Issuing Guarantees, Indemnities and Contingent Liabilities

- 4.13 The Agency may only create any contingent liability, as defined in *Government Accounting* and including guarantees, indemnities and letters of comfort, whether or not in legally binding form, without seeking the Department's prior approval if the contingent liability:
1. is not reportable to Parliament;
 2. is less than £200,000; or
 3. is above £200,000 and does not need to be funded through grant in aid provided by the Department; or
 4. the combined total of all contingent liabilities does not exceed £10m at any time.

Otherwise, the Agency must seek prior written consent from the Department.

All financial guarantees and indemnities given by the Agency under Section 5 of the Act must be adequately covered within its annual allocation of resources.

- 4.14 The Agency must keep a record of all contingent liabilities including guarantees, indemnities and letters of comfort it creates. When seeking consent the Agency should refer to the level of existing contingent liabilities whether or not reportable under FRS2 in the Agency's financial statements. The Department will need to seek Treasury approval for any contingent liabilities it is prepared to underwrite.

Write-offs, Losses, Special Payments and Gifts¹⁹

- 4.15 Proposals for making gifts to staff or other special payments including write-offs outside the Agency's delegated limits set out at Appendix F must have the prior approval of the Department. Gifts to staff are subject to DAO(GEN)13/01 and the associated Cabinet Office guidance on non-pay awards.
- 4.16 The Chief Executive as Accounting Officer, with the approval of the Board, has delegated authority to write off losses and make special payments and may formally sub-delegate this authority, within specific limits, to officers at appropriate levels. Any sub-delegations should be kept under review.
- 4.17 The Agency shall maintain a record of all losses written off, special payments and gifts made detailing the circumstances of the event and stating the action taken to prevent a recurrence. These records shall be available to the Department for inspection. Within three months of the financial year end, the Agency will supply the Government Office with a report giving the number of all write-offs, special payments and gifts made in the previous financial year and providing details of any write-offs in excess of £100,000; special payments in excess of £5,000 and a list of gifts made.
- 4.18 The Agency should notify the Department, as soon as reasonably possible, of any case that may exceed the Agency's delegated authority and, tThe Agency mustshall notify the Department of any recommendation made to it by the Parliamentary Commissioner for Administration or the Health Service Commissioner.

Advance Payments

- 4.19 In exceptional and rare circumstances (eg a revenue payment to meet a staffing cost, or to enable capital expenditure to be incurred by a small organisation), payments may be approved in advance of expenditure. *Annex 16.1 of Government Accounting* explains circumstances under which payment of grants can be made in advance.
- 4.20 The Agency may establish procedures to make payments to voluntary organisations, a subsidiary of the Agency, Business Links (under transferred contracts) and to non trading public good companies on a similar basis to that of Grant-in-Aid. That is, payment is made monthly or quarterly in advance to meet anticipated expenditure and reconciled afterwards.

19. Chapter 18 of *Government Accounting* sets out the various classifications of losses occurring through normal business activities and special payments made to compensate for loss or redress. Chapter 25 contains guidance on gifts.

Payments under such circumstances are not considered to be payments in advance of need. **Under no circumstance should advance payments be made to local authorities.**

4.21 Advance payments however, carry risks for the Agency, and is to be avoided if possible. Nevertheless, when considering whether advance payments should be made, the Agency must have regard to the soundness of the recipient body in terms of financial viability. The Agency should also ensure that payments in advance are not being requested to generate a financial gain, but requests for such payments should be based on clear, reasoned and prudent operational requirements.

4.22 Factors which may justify payment in advance of expenditure include:

1. an immediate need for the body to make the payment for which grant has been agreed;
2. the body has no other resources that it can use;
3. money cannot be raised from another source, and
4. the body cannot take forward the scheme or project without an advance payment;

4.23 The body seeking approval from the Agency for payment in advance of expenditure will need to demonstrate that there is a clear commitment to this expenditure. Where regular payments in advance of expenditure is approved, the Agency must implement a robust financial management system, with monitoring arrangements to ensure the recipient body is able to keep track of advance payments, and to confirm that expenditure was only incurred and paid for on eligible activities within the financial year. Where this does not occur, the Agency must take steps to recover any grant already paid. An audited statement of grant usage by the recipient body may be required. Or, an accountants report on the terms agreed between DTI and ICAEW, in accordance with Audit 03 / 03.

5. OPERATIONAL REQUIREMENTS AND BEST PRACTICE

Banking Arrangements

5.1 The Chief Executive as the Agency's Accounting Officer is responsible for ensuring that the Agency's banking arrangements are in accordance with the requirements of *Government Accounting* and the Treasury guidance document *Departmental Banking. A Manual for Government Departments* and are carried out efficiently, economically and effectively.

5.2 The Agency should ensure that:

- these arrangements are suitably structured, represent value for money, are efficient and are reviewed at least every two years, with a comprehensive review, usually leading to competitive tendering, at least every three to five years;
- sufficient information about banking arrangements is supplied to the Department's Accounting Officer to enable the latter to satisfy his / her own responsibilities (Section 2.20 of the Management Statement);
- the Agency's banking arrangements shall be kept separate and distinct from those of any other person or organisation;
- adequate records are maintained of payments and receipts and adequate facilities are available for the secure storage of cash.

Timeliness in Paying Bills

5.3 The Agency should collect receipts and pay all matured and properly authorised invoices in accordance with the terms of contracts or within 30 days, as provided for in *Government Accounting (see Annex 16.2)*. The Agency should endeavour to comply with the British Standard for Achieving Good Payment Performance in Commercial Transactions (BS 7890), and with the Late Payment of Commercial Debts (Interest) Act 1998 as amended.²⁰ Failure to make timely payments allows creditors to claim statutory interest and compensation on late payment of commercial debts.

20. The 1998 Act, as amended, allows most creditors, irrespective of numbers employed, to claim statutory interest and compensation on late payment of commercial debts.

Risk Management and Insurance

- 5.4 The Agency should develop a risk management strategy, taking account of the guidance in *Government Accounting*²¹, to ensure that the risks it faces are dealt with in an appropriate manner. The Risk Register and the Statement of Internal Control should be regularly reviewed.
- 5.5 The Agency may take out new insurance within the circumstances as set out in *Government Accounting*, and may continue to take out insurance previously approved by the Department for specific purposes and which has transferred to the Agency. A Certificate of Exemption for Employer's Liability Insurance has been issued to the Agency. This applies to Agency employees but not to Board members and the Agency may need additional insurance cover for Board members.

Fraud and Theft

- 5.6 The Agency shall adopt and implement policies and practices to safeguard itself against fraud and theft and shall publish a fraud policy statement to communicate the Agency's approach to fraud. It shall prepare an annual report on fraud and theft, and shall notify the Department, no later than the end of May each year of all cases of fraud or suspected fraud against the Agency or in the use of its funds in respect of the previous financial year. Reports should be in the form specified in *Chapter 5 of Government Accounting*.
- 5.7 Where cases of fraud of a substantial, novel or unusual nature arise, these must be notified immediately to the Department. The Agency should expect periodic checks by the Department and other funding Departments on whether any new or suspected frauds have been detected. They reserve the right to seek information on frauds at any time during the year.

Procurement and Project Management

- 5.8 The Agency's procurement policies shall reflect guidance from the Office of Government Commerce including *Procurement Policy Guidelines*²². The Agency shall also ensure that it complies with any relevant EU or other international procurement rules²³.
- 5.9 Periodically and wherever practicable the Agency's procurement shall be benchmarked against best practice elsewhere and contracted out where this would achieve better value for money.
- 5.10 The Agency shall also ensure that an effective system of programme and project management and contract management is maintained.

Competition

- 5.11 Contracts shall be placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall.
- 5.12 Proposals to let single-tender or restricted contracts shall be subject to a specified delegated authority (see Appendix G), and the Agency shall send to the Government Office within 3 months after the end of each financial year a report for that year giving the number of contracts above £50,000 in which competitive tendering was not employed and explaining any contracts above £100,000. Prior Departmental approval should be obtained for single tender contracts above £250k.

Value for Money

21. See Management of Risk – A Strategic Overview (HMT, January 2001) and also DAO (GEN) 18/04 – Arrangement for Handling External Risks, Publication of Orange Book and Partnership Guidance at: <http://www.hm-treasury.gov.uk/media/B7B/6E/dal1804.pdf>

22. Including Gateway Review, Successful Delivery of Projects, Achieving Excellence etc.

23. Accessible via www.ogc.gov.uk.

- 5.13 Procurement by the Agency of works, equipment, goods and services shall be based on value for money, i.e. quality (in terms of fitness for purpose) and delivery against price. Where appropriate, a full option appraisal shall be carried out before procurement decisions are taken.

Management and Disposal of Assets

Asset Management

- 5.14 The Agency is responsible for the effective use and management of all its assets. The Agency should have an Asset Management strategy that complies with the requirements for managing and disposing of assets as set out in *Government Accounting*. The Agency should also maintain a fixed asset register. It is a matter for the Agency to determine the appropriate de-minimis level for the assets to be included within the register and to be covered within the strategy. The Agency shall dispose of assets which are surplus to its requirements and ensure it gets the best consideration reasonably obtainable unless agreement to do otherwise has been obtained from the Secretary of State

Estate Management

- 5.15 The Agency must have an Estates strategy. This should either be a separate document or should be contained with the overall Asset Management strategy. The Estate should be managed in accordance with Office of Government Commerce (OGC) guidance. The Agency is also responsible for ensuring that adequate arrangements are in place to maintain accurate and up to date records and should include a market valuation (as defined by the Royal Institution of Chartered Surveyors) of all land and built property held by the Agency) in respect of land and for property held as stock, and at adjusted replacement or open market valuations in respect of operational and surplus land (see footnote 24 below).
- 5.16 The Estate strategy should include a section justifying on value for money criteria the retention of operational (administration) purposes, investment properties and properties held for development purposes. It should also set out the management arrangements according to whether the properties are held by the Agency or its subsidiaries. The strategy should be reviewed annually and a copy of the section relating to the operational estate should be sent to the Government Office.

Acquisition of Land or Property

- 5.17 Land or property should not be acquired at more than market value, as defined by the RICS Appraisal and Valuation Manual, unless prior approval is obtained from the department.

Requirements in Respect of the Agency's Operational Estate

- 5.18 Management of the operational estate shall be in accordance with paragraphs 5.15 and 5.16 above. Before entering into any lease, the Agency shall demonstrate that the lease offers better value for money than purchase. All property disposals, rent reviews, lease renewals and acquisitions in respect of the Agency's operational estate must be carried out in co-ordination with the OGC. Unless otherwise agreed with the DTI, prior Departmental approval²⁵ must be secured for all proposals for new leases, extensions and the exercising of break clauses, disposals or acquisitions of operational estate where the proposal exceed the lower of 1,000sqm or 5% of the existing operational estate.

Disposal of Capital Assets

- 5.19 The disposal value of capital assets is the actual or estimated market value of the capital asset at the time of disposal.

Disposal at Less Than the Best Consideration

24 . See paragraphs 3.2.11 to 3.2.15 of Treasury's Resource Accounting Handbook (www.resource-accounting.gov.uk) for guidance on valuing tangible assets and accounting treatment for operational property

25 . Copies of the Operational Estates Strategy should be sent to the sponsoring GO and Director Estates and Accommodation, IWS, Bay 540, 151 Buckingham Palace Road, London, SW1W 9SS

- 5.20 Part 1, Section 5 of the Act allows an Agency to dispose of land for less than the best consideration that can reasonably be obtained only if the Secretary of State consents. There may be circumstances where an Agency might consider disposal at less than best consideration¹⁴, such as where it would offer value for money in regeneration terms e.g. offering a long term lease at reduced rent to a voluntary organisation. However, the Agency would need to make a strong economic business case²⁷ to justify its proposal to the Secretary of State.

Public/Private Partnerships

- 5.21 The Agency should seek opportunities to enter into Public/Private Partnerships (PPP) to achieve its objectives where this will optimise value for money. The Agency should consult the Department where a PPP may result in a long-term revenue commitment falling to the public sector.
- 5.22 Any partnership controlled by the Agency shall be treated as part of the Agency in accordance with UK GAAP²⁸ and consolidated with it (subject to any particular treatment required by UK GAAP). Where the judgment over the level of control is a close one the Department will consult the Treasury (who may need to consult with the Office of National Statistics over national accounts treatment).

Subsidiary Companies

- 5.23 Section 5(2)(c) of the Act requires that the Agency shall not form, or acquire an interest in, a body corporate²⁹ without the Secretary of State's consent. In judging such proposals, the department will have regard to government's wider strategic aims, objectives and current Public Service Agreements (PSA). It will be for the Agency to determine appropriate controls, subject to paragraph 5.24 below and any conditions imposed by the Secretary of State, for the resources it puts into a subsidiary company and to set them out in an appropriate manner.
- 5.24 Any subsidiary company or joint venture controlled or owned by the Agency shall be consolidated with it in accordance with UK GAAP for public expenditure accounts purposes (subject to any particular treatment required by UK GAAP). Where the judgment over the level of control is close the Agency will consult the Treasury (who may need to consult with the Office of National Statistics over national accounts treatment). Unless specifically agreed with the Department and the Treasury, such subsidiary companies or joint ventures shall be subject to the controls and requirements set out in the Management Statement and this Financial Memorandum, and to the further provisions set out in supporting documentation.

6. MEMBER AND STAFFING ISSUES

Members of the Agency's Board

- 6.1 The remuneration and travelling and other allowances of the Agency's Board members may be determined by the Secretary of State (Schedule 2 of the Act).

Staffing Matters

General

- 6.2 The provisions set out below may be subject to change and the Agency will need to take account of such guidance issued from time to time by the Department which updates Government Policy on public sector pay, terms and conditions of employment. If the Agency believes that proposed personnel systems raise novel or contentious issues, or will need the approval of the Department under this Memorandum, they should consult the Department.

26. Regard should be given to paragraphs 24.2.5 and 24.2.6 of Chapter 24 of *Government Accounting* and RICS standard UK GN5 "Local authority disposals at an under value".

27. See DAO(GEN)07/05 for further guidance on the provision of capital assets to provide future funding streams and other matters. In view of the guidance contained in DAO(GEN)07/05 the Departmental intends to produce additional guidance in the context of Section (5)(2)(b) consent applications and this in course of preparation.

28. Generally Accepted Accounting Practices - standards issued in the UK by the Accounting Standards Board

29. A limited partnership established under the Limited Partnerships Act 1907 is not a body corporate whereas a limited liability partnership established under the Limited Liability Partnerships Act 2000 is a body corporate.

- 6.3 The following controls do not override the provisions of the Transfer of Undertaking (Protection of Employment) Regulations 1981 (TUPE) (S.I. 1981 No. 1794) as amended, or the provisions in the Act providing protection equivalent to TUPE, where these apply to staff transferring to the Agency.

Pay and Grading

- 6.4 The approval of the Department will be required for changes to the Agency's pay, grading and organisational structures with significant financial or political implications. The Agency's pay and grading systems will need to match its business strategy and its suitability will be judged against the criteria of value for money, flexibility, financial control and linking pay to performance.

Pay Remits

- 6.5 The approval of the Department and the Treasury will be required for remits for the Agency's pay settlements. Remits will need to comply with Government policy on public sector pay and any guidance issued by the Treasury on the preparation of that year's pay remit.

Terms and Conditions

- 6.6 Subject to the other provisions of this Memorandum, the Agency shall ensure that the appropriate provisions concerning non-pay related staff matters (such as recruitment and conduct) and pay related terms and conditions (such as leave arrangements and fringe benefits) are in place. Terms and conditions determined by the Agency shall conform to any relevant rules or principles notified to the Agency by the Department. The Agency should set out all terms and conditions of employment in a staff handbook.

Chief Executive Pay, Terms and Conditions

6.7 The prior approval of the Secretary of State must be obtained for the appointment, pay, terms and conditions (where these are different from other staff) of the Chief Executive and any subsequent changes to these. The remuneration package for Chief Executives must take account of performance pay.

6.8 There is a range covering the basic salary of Chief Executives. At 1 April 2005 this range, including the SSRB market adjustment for 2005, was as follows:

	Minimum	Maximum
Range	£104,860	£125,830

6.9 The range will be increased annually by the market adjustment described in paragraph 6.10, and the Department will review this range every three years to ensure market competitiveness; the RDA Chairs will be consulted. The first such review will be effective from April 2006.

6.10 Range salaries will be reviewed annually with a general market adjustment to take place from 1st April each year in line with figures from the Senior Salaries Review Body

6.11 A new appointment would start typically at the minimum of the range and progress through annual reviews to the maximum over a period of five years subject to doing the job 'fully and well'. For the avoidance of doubt, no Chief Executive can exceed the maximum, subject only to paragraph 6.16.

6.12 Proposals should demonstrate a clear link to job weight resulting from an independent assessment under a well established and recognised job evaluation system and the following factors should be considered:

- The relative challenge facing the Agency.
- The size of the Agency's budget.
- Cost of living comparator.
- The quality of the individual to be appointed.

6.13 Current salaries of new appointments and local market conditions must be taken into account. The Agency should ensure that their proposals are in keeping with Government policy on public sector pay.

6.14 The Agency should suggest and be able to justify the specific proposed salary for the new appointee. The Agency will not need to seek approval for the job evaluation arrangements themselves provided these rely on a well-established and recognised job evaluation system.

6.15 Annual progression shall not exceed 5% and will be subject to meeting criteria which should be agreed for the year by the end of April. A new appointee is unlikely to receive the maximum increment until two years into the job. The Government Office Regional Director should be advised of the agreed progression criteria.

6.16 It is recognised that because of the living costs in the South East, it may be necessary to seek the Minister's agreement to a higher maximum for the Chief Executive of SEEDA on his or her appointment. Where the Chair of SEEDA is considering such action, he or she should consult the other Chairs before putting a proposal to Ministers.

Performance-related Bonus

- 6.17 Non-consolidated performance related bonuses may be paid up to a maximum equivalent to 20% of salary.
- 6.18 Performance objectives will be agreed for the year by no later than the end of April. A performance review will take place by the end of July the following year. The performance review process and results must be agreed by the Remuneration Committee or RDA Board (subject to local practice).

Review Process

- 6.19 The Government Office Regional Director must be consulted, prior to the start of the financial year, on the Chief Executive's progression criteria and performance targets, to be set for that year and, in due course, on the proposed bonus and progression uplift and the basis on which these were decided within the Agency. The Regional Director will act on behalf of Departmental Ministers in this matter. The RDA chairs will collectively review the progression criteria and performance objectives for each Chief Executive to ensure that they are rigorous and that there is a level playing field. In addition, the Lead Chair will advise the Secretary of State of the set of proposed criteria and objectives; the Minister may decide to ask individual Chairs to reconsider any aspect of the proposals.
- 6.20 Chairs will review and discuss, progression and bonus proposals each year (by end of August the following year), the Lead Chair will advise the Minister of the Chairs bonus proposals, including uplifts for inflation and progression. The Minister may decide to ask Chairs to reconsider any aspects of the proposals. Finally, the Agency shall inform the Regional Director of the level of bonus to be paid and the basis on which the bonus was calculated.

Car Benefits

- 6.21 The following options will be available:
1. Use of own car. A monthly allowance plus private mileage in accordance with approved levels; or
 2. Lease car. A monthly allowance (guideline up to £500 per month).

Pension

- 6.22 Membership of PCSPS scheme or the equivalent employer contribution to a private pension scheme (currently 24.6% of salary).

Contract

- 6.23 The following options are available:
1. Fixed term contract (maximum 3 years); or
 2. Rolling contract. 6 months notice from employer, 3 months notice from employee.

Senior Staff Pay, Terms and Conditions

- 6.24 The prior approval of the Department must be obtained for the pay, terms and conditions (where these are different from other staff) of Executive Directors and any subsequent changes to these unless included in the annual pay remit. Proposals should demonstrate a clear link to job weight resulting from an independent assessment under a well established and recognised job evaluation system. The Agency should suggest and be able to justify the specific salary that flows from that job weight. The Agency will not need to seek approval for the job evaluation arrangements themselves provided these rely on a well-established and recognised job evaluation system. The Agency should ensure that their proposals are in keeping with Government policy on public sector pay.

Performance Pay

- 6.25 The Agency must put in place a scheme of performance pay and seek the approval of the Department for that scheme. The Department's approval will have to be sought for any substantive changes to the scheme, and also to any proposals to introduce or amend bonus schemes.

Superannuation

- 6.26 The Agency is a participant in the Principal Civil Service Pension Scheme (PCSPS) and that scheme is the adopted occupational pension scheme for members of staff. The Agency may make arrangements for an alternative occupational pension scheme which would require Departmental approval. Staff who have transferred into the Agency as members of other schemes may remain in their existing schemes if preferred.

Compensation for the Premature Termination of the Appointment of Staff

- 6.27 Where the Agency is a member of PCSPS the levels of Compensation will be determined by the rules governing PCSPS and the associated Civil Service Compensation Scheme. If otherwise, the Agency will be required to operate severance arrangements that are subject to the approval of the Department and reflect DAD (GEN)11/05.

Novel or Contentious Issues

- 6.28 If the Agency believes that proposed personnel systems raise novel or contentious issues, or will need the approval of the Department under this Memorandum, they should consult the Department. It is for the Agency Accounting Officer to put forward those matters he/she believes require approval from the Department under the terms of this Memorandum.
- 6.29 The Department will seek to ensure a response within 2 weeks and provide an approval or rejection within one month. In determining whether to grant approval, the Department's concern will be the financial and political implications, including repercussive effects on other Departmental NDPBs. It is for the Agency to ensure that it complies with best practice and all employment law requirements.

Personnel Information

- 6.30 The Agency shall submit to the Department such information on staffing and personnel matters as it may require.

7. COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE

Relevant documents

- 7.1 The RDA shall comply with the following general guidance documents:
- this document;
 - the management statement;
 - *Government Accounting*, including in particular the Accounting Officer Memorandum for NDPBs (reproduced in Chapter 8 of *Government Accounting*);
 - *Non-Departmental Public Bodies - a Guide for Departments* (the "NDPB Guide"), issued by the Cabinet Office;

- *Government Internal Audit Standards*, issued by the Treasury³⁰;
- *Managing the Risk of Fraud*, issued by the Treasury¹⁴;
- *Executive NDPBs - Annual Reports and Accounts Guidance*, issued by the Treasury;
- the *Fees and Charges Guide*, issued by the Treasury¹⁴;
- *Departmental Banking: A Manual for Government Departments*, issued by the Treasury¹⁴;
- relevant *Dear Accounting Officer* letters³¹, issued by the Treasury;
- *Regularity and Propriety*, issued by the Treasury;
- the Consolidation Officer Memorandum, issued by the Treasury³²;
- relevant *Dear Consolidation Officer* letters³³;
- other relevant guidance and instructions issued by the Treasury in respect of Whole of Government Accounts;
- other relevant instructions and guidance issued by the central Departments;
- specific instructions and guidance issued by the sponsor Department;
- recommendations made by the Public Accounts Committee, or by other Parliamentary authority, which have been accepted by the Government and which are relevant to the NDPB.

The Agency is also required to follow any future guidance issued which affects their financial or corporate governance.

8. REVIEW OF FINANCIAL MEMORANDUM

- 8.1 This Financial Memorandum will be reviewed from time to time (at least every three years) to reflect agreed changes in delegations or following a review of the Agency's functions as provided for in Section 2 of the Management Statement. The Treasury will be consulted on any significant variations proposed to this Financial Memorandum.

APPENDIX A

FINANCIAL APPROVAL LIMITS

1. It is a condition of the payment of grant that the Agency may not without the consent of the Secretary of State commit expenditure for an individual project³⁴ funded from the single programme budget in excess of £10 million, except expenditure on individual Selective Finance for Investment in England (SFIE) projects, where the limit is £2 million or more, £20m in respect of transferred Business Links contracts³⁵. The delegation limits exclude assistance for any project involving the development of a greenfield site³⁶. In committing expenditure for a project, whether with such consent, or without it if it does not exceed the relevant limit, the Agency shall:
1. comply with the terms set out in this Financial Memorandum; and
 2. meet the requirements of other guidance issued by the Department or the Treasury.

30. Issued by the Treasury but published by the Stationery Office (except those referred to in note 16 below)

31. Dear Accounting Officer Letters can be found on

www.hm-treasury.gov.uk/documents/public_spending_and_services/audit_and_accounting/pss_aud_dao.cfm

32. Consolidation Officer Memorandum and can be found on www.wga.gov.uk

33. Dear Consolidation Officer letters can be found at <http://www.wga.gov.uk/pages/guidance.html>

34. A project is defined, for the purposes of this Memorandum, as a unique set of coordinated activities with definite starting and finishing points undertaken by an individual or team, to meet specific objectives with defined time, cost and performance parameters.

35. The £20m delegation has been set to cover the 2 year period for each transferred contract. Any variation to scope or re-negotiation of the contract should be carried out under current financial delegation of £10m and in accordance with SPAG.

36. Government Offices are currently responsible for determining whether to give RDAs consent for giving financial assistance in respect of greenfield sites up to 30 acres (approximately 12 hectares) in size. Applications for consent in respect of larger sites are currently determined by the Central Project Review Group (CPRG).

2. Where the Agency's proposed expenditure for a project exceeds £20 million, the Agency must obtain the consent of the Treasury as well as that of the Secretary of State.
3. For the purpose of paragraph 1, in determining whether the amount of expenditure proposed for a project exceeds the financial limit:
 1. the Agency shall normally have regard to the total estimated RDA expenditure for the project;
 2. for projects delivered through partnerships and for which grant is paid to another body, the Agency shall have regard to their estimate of total grant to be paid for the project over its whole lifetime; and
 3. the Agency shall observe the rules set out in paragraphs 5 to 8 of this Annex.

The financial limit of £10m has been fixed on the understanding that:

- a) the Department will be involved in post-appraisal and post-implementation monitoring of projects. This will be conducted on a sample basis agreed with the Treasury; and
- b) that the Agency continues to improve its project appraisal, management and evaluation systems.

The Department retains the right to lower the delegation should the Agency receive an adverse report on methodology or procedure from NAO or a DTI appointed approver.

4. Projects must not be artificially split so as to portray what is properly regarded as a single project as if it were two or more projects each falling within the financial limit for the programme concerned. (Giving financial assistance under those circumstances would not be covered by the consent given by the Secretary of State below.)
5. In determining whether or not the Agency's total estimated expenditure³⁷ on any project exceeds a financial limit, account must be taken of all contingent liabilities, including guarantees to be given by the Agency, whether during or after the lifetime of the project. Non-cash costs including losses on disposal and cost of capital should be included in consideration of whether the financial limit is exceeded. Also, in determining whether or not the Agency's total estimated expenditure on any project exceeds a financial limit, any receipts received, or expected to be received, in connection with the project and flowing through the Agency's accounts (eg Structural Funds³⁸ and any funds held in separate bank accounts) shall count towards the total estimated expenditure.

Consent under Section 5 (2) (a) to giving financial assistance

6. Subject to the following conditions, where expenditure not exceeding the financial limit involves giving financial assistance, by way of grant, the Agency has by virtue of this Annex the consent of the Secretary of State, under Section 5(2)(a) of the Act, to give such assistance, unless a separate consent is required.
7. This consent is subject to the power of the Secretary of State by direction to call in a particular project for specific approval (where this is done, the consent given above will not apply).
8. In giving financial assistance as permitted by this Annex, the Agency must observe all applicable laws and rules of the European Union, including, in particular, European Union State Aids requirements.³⁹

37. Section 5 (financial assessment) of Annex A to SPAG refers to "Gross undiscounted costs". For the avoidance of doubt, that phrase has the same meaning as "estimated expenditure" as explained in paragraph 5 above and prior to any discounting methodology.

38. European Union Funding

39. Policy on what constitutes 'de minimis' payment is provided by the European Commission and guidance can be found on the Department's web site: <http://www.dti.gov.uk/ccp/stateaid/notification.htm#demimus>

9. Where expenditure on a project is given in the exercise of a function that has been delegated to the Agency under Section 6 of the Act, consent to the giving of financial assistance for the project is conditional upon the Agency complying with the conditions attached to the delegation of the function concerned.

Novel, contentious or repercussive expenditure

10. Any proposed expenditure or guarantee that is in any way novel, contentious or repercussive, regardless of its cost, will require the specific prior approval of the Department and the Treasury. Further advice is given in paragraph 4.11 of this Memorandum.

Administration Information Requirements

1. The Agency's annual administration resource budget will be determined during the Corporate Planning Process. The Agency will set out in its Corporate Plan its annual estimated budget for Administration for each year of the Corporate Plan period, sub-divided between Pay, Non-Pay Administration Costs (Current) and Non-Pay Administration Costs (Capital).
2. The Agency may not exceed the administration budget endorsed by Ministers in the Corporate Plan, without prior approval from the Department, beyond 5%. The Department will consider sympathetically cases where increased spending can be linked to longer-term efficiencies, underspends from previous years and where increases in one Region can be offset by savings in another Region.
3. The Agency shall submit every quarter, as part of the quarterly resource budgeting workbook, financial information on the progress of the Administration budget divided between the three sub-headings - Pay, Non-Pay Administration Costs (Current) and Non-Pay Administration Costs (Capital). Any virement between these sub-headings must comply with the rules governing the Pay Remit, and must not alter the capital/current ratio of the Agency's budget as a whole.
4. The Agency will also set out staffing levels and Agency structure in its Corporate Plan.

APPENDIX C

SCHEDULE OF CONSENTS AND OTHER APPROVALS NEEDED UNDER THE MANAGEMENT STATEMENT AND FINANCIAL MEMORANDUM

Type of approval or consent	Section of Financial Memorandum or Management Statement	Form of approval or consent needed
Giving financial assistance above the delegated limits.	FM paragraph 4.3 and Appendix A	Prior approval of the Secretary of State.
Borrowing or temporary borrowing including pre-arranged overdraft facilities from the public sector and outside.	Section 11, 1998 Act FM paragraphs 3.13 and 3.14	Prior approval of the Secretary of State where no general consent has been given.
Guaranteeing loans taken out from persons other than the Secretary of State.	Section 12, 1998 Act and FM paragraph 3.15	Prior consent of the Secretary of State.
Lending money.	FM paragraph 4.6	Prior approval of the Secretary of State.
Give a guarantee, indemnity, letter of comfort or create any other contingent liability, as defined in <i>Government Accounting</i> , whether or not in a legally binding form.	FM paragraphs 4.13 and 4.14	Prior approval of the Secretary of State where a contingent liability will fall on the Department or, at any time, exceed a combined contingent liability of £10m.
Disposing of assets at less than best consideration which can reasonably be obtained.	Section 5(2)(b), 1998 Act and FM paragraphs 5.20	Approval of the Secretary of State.
Remuneration and travelling and other allowances of Board members.	Schedule 2, 1998 Act and FM paragraph 6.1	Approved by Secretary of State.
Form or acquire and interest in, a body corporate.	Section 5(2)(c), 1998 Act and FM paragraphs 5.23	Prior approval of Secretary of State.
Expenditure that is or might be considered novel, contentious or repercussive, which could have significant future cost implications including on staff benefits.	FM paragraphs 4.11 and 6.28	Prior approval of the Department and Treasury.
Alternation of balance between capital and current expenditure initially allocated to the Agency.	FM paragraph 2.2	Prior approval of the Department.
Incurring expenditure which will change priorities or significantly alter resource allocations.	FM paragraph 4.2	Prior approval of the Department.
Type of approval or consent	Section of Financial Memorandum or Management Statement	Form of approval or consent needed
Proposals for making gifts or special payments, including write-offs above the delegated limits in Appendix F.	FM paragraphs 4.15	Prior approval of the Department above delegated limits.
Approval of pay, grading and organisational structures with significant financial or political implications and for any subsequent significant changes to those structures.	FM paragraph 6.4	Prior approval of the Department.

Remits for Agency pay settlements.	FM paragraph 6.5	Prior approval of the Department.
Appointment, pay, terms and conditions (where different from other staff) of the Chief Executive, and any subsequent changes to these.	FM paragraphs 6.7 – 6.23	Prior approval of the Department.
The GO Regional Director must be consulted on the Chief Executive's Performance targets.	FM paragraph 6.19	Prior approval of the Department in consultation with the GO.
Approval of performance pay scheme and any substantial changes to the approved scheme.	FM paragraph 6.25	Prior approval of the Department.
Approval of an alternative occupational pension scheme to the Principal Civil Service Pension Scheme.	FM paragraph 6.26	Prior approval of the Department.
Approval of severance arrangements.	FM paragraph 6.27	Prior approval of the Department.
Approval of novel or contentious issues in relation to Staffing Matters.	FM paragraph 6.28	Consultation with and approval by the Department.
Proposals for making gifts to staff or other special payments, including write offs above the delegated limits in Appendix F.	FM paragraphs 4.15 and 6.6	Prior approval of the Department above delegated limits.
Proposal to extend or create new overseas offices.	FM paragraph 4.11	Prior approval of the inward Minister for International Trade and Activities Investment.

SCHEDULE OF RETURNS REQUIRED UNDER THE FINANCIAL MEMORANDUM AND MANAGEMENT STATEMENT

FM or MS Reference	Subject or /purpose of return	Date due
MS paragraphs 2.20 and FM paragraph 5.6	Annual Report on all cases of fraud and theft or suspected fraud.	End of financial year – Submitted by end of May.
FM paragraphs 3.18 and 4.15	Report giving the numbers of all gifts received, sums written off and special payments made and providing details of any write-offs in excess of £100,000; special payments in excess of £5,000 and a list of gifts made.	End of financial year – submitted by end of June.
FM paragraph 5.12	A report giving the number of contracts let above £50,000 in which competitive tendering was not employed and explaining any such contracts above £100,000.	End of financial year – submitted by the end of June at the latest.
MS paragraphs 2.20, 2.22, and Annex A	Annual Report and Accounts	June
MS paragraph 5.6	Internal Audit opinion and supporting documentation. Copy of the Statement of Internal Control and Risk Register.	End of financial year. June
MS paragraph 2.25	Recommendations made by either the Parliamentary Commissioner for Administration or the Health Service Commissioner.	June
MS paragraphs 3.1 - 3.3	Corporate Plan	Bi-annually in December
MS paragraphs 4.1 – 4.3	Efficiency Plan (covering 3 forward Years).	June
MS paragraphs 4.4	Efficiency Plan monitoring reports	Quarterly
FM paragraph 5.15	Estates Strategy	December
FM paragraph 3.4	Cash Profile	Monthly
FM paragraph 3.6	Grant in Aid Application	Monthly

RESOURCE BUDGETING WORK BOOKS REQUIRED UNDER RESOURCE ACCOUNTING

HM Treasury has set-up a new database (COINS) to monitor central and local government spending. The new category codes, referred to below, are imbedded in the revised workbook and are as follow:

Current expenditure on pay and related costs

5111100 (formerly A15) Pay and pension costs:

41212000 (formerly A15) - Pay and pension costs (receipts): Relating to above.

Other current expenditure, and associated receipts, on goods and services

51403000 (formerly B35) - Payment for goods and services.

41203000 - Payment for goods and services (receipts): Relating to above.

Bad Debts

51413200 (Formerly B85) - Bad debts in connexion with pay, procurement, capital.

51413200 (Formerly B86) - Bad debts in connexion with loans, grants and transfers.

Capital Consumption and Holding

51311000 (Formerly B90) - Depreciation (departments, agencies and NDPBs).

5132110 (Formerly B95) - Impairment of Fixed Assets.

51410130 (Formerly B99) - Cost of Capital Charges other than B98 {Cost of Capital Charge in connexion with loans and public dividend capital}.

Subsidies

51620400 (Formerly C10) - Subsidies to the private sector. Includes subsidies to agriculture and transport.

Current Grants

51620400 (Formerly D10) - Current grants to the private sector:

Capital Expenditure

13916000 (Formerly E05) - Purchase of land.

13912000 (Formerly E06) - Sale of land (book value).

13916000 (Formerly E10) - Purchase of existing buildings.

13912000 (Formerly E11) - Sales of existing buildings (book value).

13916000 (Formerly E15) - Formation of tangible capital:

13912000 (Formerly E16) - Sales of tangible capital (book value).

Change in the level of stocks; Accruals to Cash Adjustments

51414112 (Formerly F11) - Change in the level of stocks of capital assets - part of the voted accruals to cash adjustment for capital expenditure.

51412500 (Formerly F20) - Write-offs of Stock

51414112 (Formerly F25) - Other changes in stock which impact on the capital budget - *for use only with Treasury approval.*

Grants to finance the acquisition of capital assets by the recipient

51618000 (Formerly G10) - Capital grants to the private sector:

51618000 (Formerly G20) - Capital grants to the private sector:

41209540 - For receipts

Borrowing and Lending Transactions

17093130 (Formerly H10) Net lending to the private sector:

17093130 (Formerly H20) Net lending to the private sector

Movements in Provisions - 51411600:

L10 Provisions related to pay, procurement &c and associated income

L11 Provisions related to pay, procurement &c and associated income:

L15 Provisions for pensions for staff where body has own unfunded pension scheme:

L16 Provisions for pensions for staff where body has own unfunded pension scheme:

L20 Provisions relating to grants and associated receipts

L21 Provisions relating to grants and associated receipts:

L30 Provisions relating to bad debts on loans:

L31 Provisions relating to bad debts on loans:

Transfers from central government to local authorities

Current Grants

51620110 (Formerly M10) - Current grants to local authorities within AEF/AEG).

Capital Grants

51611300 (Formerly N10) - Capital grants to local authorities:

Items normally treated as part of revenue in the national accounts

5401700 (Formerly S10*) - Payments of interest to and receipts of interest from the private sector.

Profit and Loss on Disposal - 51414112

X06 Profit and loss on disposal of land.

X11 Profit and loss on disposal of existing buildings

**DELEGATIONS FOR LOSSES AND WRITE-OFF OF INDIVIDUAL
LOSSES, SPECIAL PAYMENTS AND GIFTS**

The Agency shall have delegated authority to:

1. Write off individual losses which are not novel, contentious or repercussive up to the value of £250,000 with the approval of the Board.
2. Make special payments up to £5,000 per case and, £25,000 in respect of personal injuries or industrial tribunals.
3. Make a single gift up to the value of £1,000. The total value of gifts shall not exceed £20,000 in any one year.

Gifts to staff are subject to the requirements of DAO (GEN) 13/01 and the related Cabinet Office guidance on non-pay awards.

These delegations do not apply to EU Structural Funds grants.

DELEGATED AUTHORITY TO LET CONTRACTS OTHER THAN BY COMPETITIVE TENDER

Any contracts to be let other than by competitive tender require the prior consent of the Department, except for the following categories:

- a. **De Minimis:** formal competitive tenders are not required for contracts worth less than £50,000,

- b. **Single Tender:** where there is no reasonable alternative (for example, for certain specialist or fixed price services) or in cases of extreme urgency (for example, to remove a risk to public safety) contracts may be let by single tender action subject to the rules of the EU procurement directives. For contracts up to £250,000, the Agency, with the approval of the Board, is authorised to determine whether the single tender process is appropriate. The Board may determine the level at which their approval is necessary but this should not be more than £100k.

These conditions do not apply to EU Structural Funds grants.

END YEAR FLEXIBILITY

1. On the basis that the [funding] Departments continue to be entitled by the Treasury to the necessary End-Year Flexibility (EYF), the RDAs are entitled to full 100% during the period of their Corporate Plans. Within this overall EYF entitlement, each RDA has an automatic entitlement ceiling of 10% of that RDA's entire annual budget or £20m, whichever is the greater. Beyond the 10%/£20m automatic entitlement, an RDA can apply for additional EYF. The sponsor Department will consider such applications on a case-by-case basis, but the expectation is that, where a clear need is demonstrated, the additional EYF will be agreed as requested. The ceiling on EYF entitlement does not apply to funding released by payment of retrospective EU Structural Funds.
2. The EYF entitlement in any given year will be based on the previous year's Period 13 forecast underspend submitted by the RDAs in May. Any difference between this underspend and any actual underspend will be taken into account by the Treasury following the next Period 13 forecast submission by the RDAs. Departmental-level Period 13 information is included in the Treasury's Public Expenditure Outturn White Paper (PEOWP).
3. On the basis of the best outturn figures RDAs can provide by mid May, indicative EYF allocations will be given to RDAs by the end of June.
4. EYF funds will be provided to RDAs following publication of the Winter Supplementary and/or the Spring Supplementary Estimate each year. In order for the funding Departments to meet the Supplementary Estimate timescales, the RDAs will provide the sponsor Department with details of their EYF requirements, based on up to date forecast outturns, by end September at the latest for the Winter Supplementary and by end of December at the latest for the Spring Supplementary. Where an RDA is requesting EYF above the 10%/£20m automatic entitlement, an explanation of how the additional EYF will be used must also be supplied along with the basic financial information.
5. Where a RDA's cumulative EYF has exceeded 10% of its annual budget, the sponsor Department will require that RDA to identify the reasons for this underspend and to provide an indication of how they are seeking to reduce it in subsequent years.
6. Overspending the annual resource allocation is not permitted, nor may the provision for future years be brought forward.